

Office of the
Legislative Fiscal Analyst

FY 2002 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Internal Service Funds
Division of Fleet Operations

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1.0 Summary: Division of Fleet Operations

The Division of Fleet Operations was established as a new division of Administrative Services in 1996. Utah Code (63A-9-401) empowers the division to coordinate all purchases of state vehicles, establish fleet authorization and information systems, and make rules for all aspects of vehicle acquisition maintenance, resale, and utilization. The division also includes the State and Federal Surplus property programs, which were housed in the Division of Purchasing and General Services prior to 1996.

	Analyst FY 2002 Base	Analyst FY 2002 Changes	Analyst FY 2002 Total
Financing			
Dedicated Credits - Intragovernmental Re	37,110,500		37,110,500
Total	<u>37,110,500</u>	<u>\$0</u>	<u>37,110,500</u>
Programs			
ISF - Motor Pool	21,881,800		21,881,800
ISF - Fuel Network	13,914,600		13,914,600
ISF - State Surplus Property	690,300		690,300
Total	<u>37,110,500</u>	<u>\$0</u>	<u>37,110,500</u>
FTE/Other			
Total FTE	52		52
Authorized Capital Outlay	\$11,470,900	\$0	\$11,470,900
Retained Earnings	\$6,032,900	\$0	\$6,032,900
Vehicles	258	0	258

2.0 Issues

2.1 General Fund Borrowing

During the 1999 General Session, the Legislature appropriated \$4 million to reduce the growth of General Fund borrowing in the Division of Fleet Operations. The combination of the new appropriation and the centralization/consolidation of the fleet has led to better than expected results. While the Division must still borrow from the General Fund to purchase new vehicles, the amount that is needed is much lower than in previous years. General Fund borrowing levels for the Division of Fleet Operations and other agencies can be found in the Internal Service Fund overview contained behind Tab 14.

2.2 Response to Intent Language

Last year the Legislature adopted several intent statements regarding the Division of Fleet Operations. In meeting the intent language, the Division presented a 53-page report to the Executive Appropriations Committee during the 2000 interim. The Analyst also presented a response to the intent report that is located behind the *Special Reports* tab of this budget recommendation.

2.3 On-line Auctioning of Surplus Property

The overwhelming success of on-line auction sites like *eBay*, *uBid*, and *BidGov* offers a unique opportunity for State government. These services have the potential to reduce the cost of surplus activities as well as increase the demand for state property offered for resale. A discussion of this opportunity is presented on page 9.

3.0 Programs: Internal Service Fund – Fleet Services

3.1 Fleet Services - Administration

Recommendation

The Analyst is recommending the agency request.

Financing	2000 Actual	2001 Estimated	2002 Analyst	Est/Analyst Difference
Expenditures				
Personal Services	460,100	586,600	610,900	24,300
In-State Travel	1,400	1,200	1,400	200
Out of State Travel	2,400	2,000	2,400	400
Current Expense	91,300	66,300	91,200	24,900
DP Current Expense	25,200	65,600	128,600	63,000
DP Capital Outlay	3,400	600	3,400	2,800
Other Charges/Pass Thru	(583,800)	(722,300)	(838,000)	(115,700)
Total	\$0	\$0	(\$100)	(\$100)
FTE/Other				
Total FTE	11	11	12	1
Authorized Capital Outlay	\$0	\$5,463	\$0	(5,463)
Retained Earnings	\$10,700	\$10,700	\$10,700	

Purpose

The Administration program is responsible for the accounting and budget functions of the Division of Fleet Operations. This section is also responsible for billing and associated activities. In addition, it coordinates the annual rate package for Internal Service Funds and distributes the annual fleet operations budget for the Division.

Administration also oversees the statewide fleet management information system (CARS database) and the statewide fuel network which serves approximately 600 state and local agencies. This program is staffed primarily with technical support personnel skilled in computer programming, LAN infrastructure maintenance, electronic fuel equipment maintenance and customer service telephone support/training.

DFO's request for FY 2002 assumes expenditures that are \$7 million less than estimates for FY 2001. The Analyst hopes that this will be the case, but does not see how the agency will be able to cut more than 20 percent of its costs in one year.

	Total Budget	Administration	Percent
FY 2002	\$27,354,600	\$838,000	3.06%
FY 2001	\$34,702,300	\$722,300	2.08%
FY 2000	\$29,769,900	\$583,800	1.96%
FY 1999	\$23,640,300	\$670,800	2.84%

The Analyst also notes that the percentage of money spent on administration crept over 3 percent in the Division's request. While more expenditures would lower the percentage, it seems that the administration of Fleet and Surplus property may be growing faster than the programs.

3.2 Fleet Services - Motor Pool

Recommendation

The Analyst recommendation reflects the Division's request.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits - Intragovernmental	19,448,700	23,472,800	21,881,800	(1,591,000)
Total	\$19,448,700	\$23,472,800	\$21,881,800	(\$1,591,000)
Expenditures				
Personal Services	800,400	964,600	1,000,900	36,300
In-State Travel	3,900	10,900	10,200	(700)
Out of State Travel	5,500	14,500	12,800	(1,700)
Current Expense	7,460,500	9,180,800	8,254,000	(926,800)
DP Current Expense	47,600	49,000	50,000	1,000
DP Capital Outlay	180,000	142,000	180,000	38,000
Capital Outlay	6,634,400	11,261,300	10,517,100	(744,200)
Other Charges/Pass Thru	127,100	214,800	520,500	305,700
Total	\$15,259,400	\$21,837,900	\$20,545,500	(\$1,292,400)
Profit/Loss	\$4,189,300	\$1,634,900	\$1,336,300	(\$298,600)
FTE/Other				
Total FTE	19	19	21	2
Authorized Capital Outlay	\$19,665,900	\$33,321,217	\$11,355,900	(21,965,317)
Retained Earnings	\$3,464,200	\$5,099,100	\$6,433,200	1,334,100
Vehicles		244	244	

Purpose

The Operations program is responsible for all management accountability associated with the operation of statewide vehicle fleet, central motor pool operation, division wide safety objectives/compliance and the underground storage tank program. The central motor pool operates a vehicle fleet of approximately 4100 vehicles and manages several small daily rental mini-pools located along the Wasatch front. The program also administers the division safety program, vehicle accident management program, federal alternative fuel program and coordinates the statewide underground storage tank program.

Capital Outlay

Beginning with Fiscal Year 2000, all fleet expansions must be capitalized up-front. Therefore, the Capital Outlay recommendation is only for replacement vehicles currently authorized to be in the fleet. For Fiscal Year 2002, the Analyst supports the Division request for authority to purchase replacement vehicles in an amount not to exceed \$15,355,900, which includes \$4 million in General Fund. Any addition to the State fleet must be approved and funded by an agency's appropriation committee prior to acquisition by the Division of Fleet Operations.

Note to capital authorization

The Analyst is recommending this level of capital authorization subject to the availability of working capital. Absent any other mechanism, the majority of the funding for fleet capitalization will come from General Fund borrowing.

3.3 Fleet Services - Fuel Network /Management Information System (MIS)

Recommendation

The Analyst is recommending the agency request for the fuel network.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits - Intragovernmental	12,648,000	11,681,000	13,914,600	2,233,600
Total	\$12,648,000	\$11,681,000	\$13,914,600	\$2,233,600
Expenditures				
Personal Services	355,400	340,400	373,000	32,600
In-State Travel	1,600	2,200	1,600	(600)
Out of State Travel	1,300	1,100	1,300	200
Current Expense	12,755,500	11,094,900	13,343,800	2,248,900
DP Current Expense	6,400	3,300	6,400	3,100
Capital Outlay	73,500	128,800	83,100	(45,700)
Depreciation	106,000	121,600	106,000	(15,600)
Total	\$13,299,700	\$11,692,300	\$13,915,200	\$2,222,900
Profit/Loss	(\$651,700)	(\$11,300)	(\$600)	\$10,700
FTE/Other				
Total FTE	9	9	9	0
Authorized Capital Outlay	\$21,857	\$1,137,548	\$115,000	(1,022,548)
Retained Earnings	(\$309,800)	(\$321,100)	(\$321,100)	
Vehicles		3	3	

Purpose

This program centrally manages all aspects associated with the Division's telecommunication services, computer information systems, and consolidated electronic refueling stations.

Capital Outlay Recommendation

The Fuel Network uses capital outlay authorizations to replace card readers and fuel tank monitors. This year's replacement schedule calls for \$115,000 in new and replacement equipment that can be met using existing funds.

1. *Card Readers \$75,000* The GasCard program grew to over 100 participants this year. A key component of the program is a card reader system that collects data on fuel efficiency and utilization. The Fuel Network replaces readers on a six-year depreciation cycle and needs to replace ten readers this year.
2. *Tank Monitor Replacements \$40,000* Tank monitors are a depreciating asset subject to changing technology. Without scheduled updates, the replacement parts will become more expensive than complete replacement. Updates from older systems are able to incorporate new technology without complete replacement costs and provide the ability to increase the level of functionality.

3.4.1 Surplus Property - Federal

Recommendation

The Analyst is recommending the agency request for this program.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits - Intragovernmental	623,700	700,000	623,800	(76,200)
Total	\$623,700	\$700,000	\$623,800	(\$76,200)
Expenditures				
Personal Services	253,100	199,800	208,900	9,100
In-State Travel	1,000	3,500	2,800	(700)
Out of State Travel	10,200	12,600	11,800	(800)
Current Expense	228,600	431,600	276,400	(155,200)
DP Current Expense	4,200	3,500	4,200	700
DP Capital Outlay	1,300	1,100	1,300	200
Capital Outlay	14,900	22,800	22,300	(500)
Other Charges/Pass Thru	4,900	5,700	4,900	(800)
Total	\$518,200	\$680,600	\$532,600	(\$148,000)
Profit/Loss	\$105,500	\$19,400	\$91,200	\$71,800
FTE/Other				
Total FTE	4	4	5	1
Authorized Capital Outlay	596,779	46,215		(46,215)
Retained Earnings	175,700	195,100	286,300	91,200
Vehicles		1	1	

Purpose

The Federal Surplus Program consists of acquiring and donating property to public and non-profit agencies, which presently exceed 600 accounts. A handling fee is charged to agencies acquiring surplus property. These dedicated credits fund the operation while offering a means for state, county, and local agencies to stretch their limited resources.



Figure 1: Murray Police Vehicle Donated by DFO Surplus

*Revenue
Estimates*

Two years ago the Analyst expressed concern that Surplus was estimating a loss for Fiscal Year 1999, following a large loss in Fiscal Year 1998. Following a reorganization the program became solvent and has a retained earnings balance of nearly \$200,000. FY 2001 estimates show positive net income of nearly \$20,000 and the FY 2002 request reflects anticipated earnings of \$90,000. The Analyst anticipates that the Federal Surplus Program will soon be able to use these profits to reduce rates charged to state agencies and other governmental users.

3.4.2 Surplus Property - State

Recommendation

The Analyst is recommending the agency request for this program.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits - Intragovernmental	539,900	597,500	690,300	92,800
Total	\$539,900	\$597,500	\$690,300	\$92,800
Expenditures				
Personal Services	276,400	233,600	252,500	18,900
In-State Travel	300	500	300	(200)
Out of State Travel	200	500	200	(300)
Current Expense	385,400	268,600	410,000	141,400
DP Current Expense	4,000	4,100	4,000	(100)
DP Capital Outlay	700	1,000	700	(300)
Capital Outlay	19,900	19,500	16,700	(2,800)
Other Charges/Pass Thru	5,700	7,800	5,700	(2,100)
Total	\$692,600	\$535,600	\$690,100	\$154,500
Profit/Loss	(\$152,700)	\$61,900	\$200	(\$61,700)
FTE/Other				
Total FTE	6	6	5	(1)
Authorized Capital Outlay	\$596,779	\$186,839	\$0	(186,839)
Retained Earnings	(\$438,100)	(\$376,200)	(\$376,200)	
Vehicles		10	10	

Purpose

The Division sells state agency surplus property to the public subject to a 30-day purchase priority that is given to state and local government agencies. The best possible price is obtained by using varied sales methods; i.e., warehouse direct sales, sealed bids, spot bids and auction sales to the public.

Concern: Continued Operating Losses

The State surplus program continues to operate at a deficit. Following losses of \$350,000 and \$150,000 in FY 1999 and FY 2000, respectively, the program began the current fiscal year with a deficit in retained earnings of \$376,000. Although the Division projects a slight net gain in operating income this year, the Analyst is concerned that the program continues to lose money. The ISF Rate Committee adopted a new rate structure in January of 2001 that they hope will allow State Surplus to eliminate the retained earnings deficit within four years. The Analyst is optimistic that the new structure will achieve that goal and encourages State Surplus property to find creative ways to ensure future viability of the program.

Potential Solution: Other governments experience doubling of profits using on-line auction services

In addition to these traditional methods of resale, the State now has at its disposal a number of on-line auctioneers with large and varied customer bases. Auction houses like *eBay*, *uBid*, and *GovBid* allow private citizens, businesses, and governments to offer items for sale over the Internet. The economies of scale presented by these electronic markets allow low transaction costs and higher than traditional demand.

Other governments throughout the nation have already begun to move surplus property disposal on-line. Maine and Massachusetts are both using commercial auction houses to sell depreciated fixed assets. Oregon has found that using *eBay* more than doubles the profit generated by the sale of surplus property. Harris County, Texas has developed its own on-line auctioning site fashioned after *eBay*, turning what was formerly a losing proposition into one that generated thousands of dollars per week for the county.

Beginning in May of last year, the Analyst suggested that Surplus Property managers pursue on-line auctioning for Utah. Not until a week prior to Legislative session did they begin to make progress on this front. The Analyst again recommends that the division begin offering surplus property for sale on-line.

3.5 Alternative Fuel Vehicles

Federal regulations for alternative fuels focus on vehicles rather than on fuel consumption. The Department of Energy mandates that a percentage of centralized fleets must be made up of alternative fuel vehicles, although the mandate does not specify which type of fuel must be burned or in what amounts. This is an additional cost to the State that could be avoided by purchasing dual fuel vehicles.

Natural Gas Vehicles

The Department of Administrative Services has pursued a policy of purchasing compressed natural gas (CNG) vehicles to comply with Department of Energy (DOE) mandates. CNG vehicles are clean burning (ultra low emissions) and have ample range to make moderate length trips outside of the Wasatch Front area. Although CNG vehicles are as safe as their gasoline counterparts and perform as well as any other vehicle, they are limited by a lack of refueling options in rural areas and by a fuel tank that virtually eliminates all trunk space. The additional price tag of approximately \$5,000 per vehicle has been considered a cost of doing business in a federally regulated environment.

In addition to the \$5,000 add-on for alternative fuel vehicles, the State currently has no outlet to surplus CNG vehicles. This means that a significant part of the cost cutting measures used to manage the fleet is unavailable to the State.

Flex-Fuel Option

The cost of purchasing a DOE approved vehicle does not have to exceed the cost of a standard vehicle. Flexible fuel vehicles (FFV) meet DOE guidelines for fleets and can operate on both gasoline and ethanol. The cost for a FFV is no different than the standard cost for gasoline-only vehicles. Manufacturers offer FFVs in sedans, pickups, sport utility vehicles and vans. By purchasing FFVs to meet DOE requirements, the state saves money for capital outlay and maintains full flexibility of fleet assignment. Currently, CNG vehicles are limited to urban areas. FFVs can be operated in any part of the State, require no special infrastructure and maintain full resale value when the State is ready to surplus the vehicle.

The Analyst believes that it is in the best interest of the State to use the most cost-effective method to meet DOE guidelines. As long as DFO can charge agencies for added costs associated with CNG vehicles, the Analyst believes there is no incentive to cut costs in the alternative fuel program. Therefore, the Analyst recommends the following intent language:

It is the intent of the Legislature that the Division of Fleet Operations eliminate the fee charged to state agencies for alternative fuel vehicles.

3.6 Fleet User Report Cards

In working with State Agencies and Higher Education to maximize fleet management, the Division of Fleet Operations prepares semi-annual report cards that measure progress on objective standards. Summary information is presented here. The Division of Fleet Operations provided the expanded data to agencies and the Analyst.

<i>USHE Fleet Management Report Card</i>			
	03/01/00	08/01/00	CUM
	Grade	Grade	GPA
<i>USHE</i>			
U of U	2.70	2.84	C+
USU	3.23	2.52	B
WSU	2.49	1.83	C+
SUU	3.54	3.21	B+
UVSC	2.24	1.97	C+
SLCC	2.56	2.76	B-
Snow	3.15	2.64	C+
CEU	3.11	2.65	C+
Dixie	3.70	3.76	B
<i>USOE</i>			
UBATC	3.50	3.46	B+
DATC	3.30	2.88	B-
OWATC	2.80	2.23	C
BATC	3.10	2.62	B-
DNR	2.10	N/A	C
UDOT	3.00	N/A	B
DFO	3.70	N/A	A-

The only agency with a grade of “A” is the Division of Fleet Operations. One should expect the Motor Pool managers to lead the way in vehicle maintenance. State agencies and higher education must continue to work with DFO to improve performance. The goal of consolidation was to reduce costs, eliminate General Fund borrowing and reduce the size of the fleet. Agencies must distance themselves from turf battles over vehicles with the Division of Fleet Operations – state agency missions focus on service providing. Only DFO has the expertise and mission of maintaining a fleet of vehicles.

3.7 Fleet Capitalization

The Legislature appropriated \$4 million to the Division of Fleet Operations in Fiscal Year 2000 to help reduce the need for General Fund borrowing. The Analyst recommends that these funds continue at the same level in FY 2002.

	2000	2001	2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
General Fund	4,000,000	4,000,000	4,000,000	
Total	\$4,000,000	\$4,000,000	\$4,000,000	\$0
Expenditures				
Other Charges/Pass Thru	4,000,000	4,000,000	4,000,000	
Total	\$4,000,000	\$4,000,000	\$4,000,000	\$0
FTE/Other				

4.0 Additional Information

	1998	1999	2000	2001	2002
Financing	Actual	Actual	Actual	Estimated	Analyst
Premiums	178,800	24,500			
Dedicated Credits - Intragovernmental R	19,622,900	22,270,500	33,260,300	36,451,300	37,110,500
Total	\$19,801,700	\$22,295,000	\$33,260,300	\$36,451,300	\$37,110,500
Programs					
ISF - Motor Pool	9,490,900	11,242,900	19,448,700	23,472,800	21,881,800
ISF - Fuel Network	8,817,900	9,359,100	12,648,000	11,681,000	13,914,600
ISF - Fleet Administration	619,000	670,800			
ISF - State Surplus Property	511,100	233,300	539,900	597,500	690,300
ISF - Federal Surplus Property	362,800	788,900	623,700	700,000	623,800
Total	\$19,801,700	\$22,295,000	\$33,260,300	\$36,451,300	\$37,110,500
Expenditures					
Personal Services	1,809,000	2,199,300	2,145,400	2,325,000	2,446,200
In-State Travel	2,800	9,400	8,200	18,300	16,300
Out of State Travel	15,100	19,400	19,600	30,700	28,500
Current Expense	12,730,100	13,705,600	20,921,300	21,042,200	22,375,400
DP Current Expense	89,000	121,500	87,400	125,500	193,200
DP Capital Outlay	129,800	312,900	185,400	144,700	185,400
Capital Outlay	136,600	6,300	6,742,700	11,432,400	10,639,200
Other Charges/Pass Thru			(446,100)	(494,000)	(306,900)
Depreciation	5,723,700	7,265,800	106,000	121,600	106,000
Total	\$20,636,100	\$23,640,200	\$29,769,900	\$34,746,400	\$35,683,300
Profit/Loss	(\$834,400)	(\$1,345,200)	\$3,490,400	\$1,704,900	\$1,427,200
FTE/Other					
Total FTE	46	45	49	49	52
Authorized Capital Outlay	\$12,032,200	\$21,198,200	\$20,881,315	\$34,697,282	\$11,470,900
Retained Earnings	\$431,200	(\$584,200)	\$2,902,700	\$4,607,600	\$6,032,900
Vehicles	0	0	0	258	258